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Message Text

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PAGE 01 STATE 214591
ORIGIN TRSE-00

INFO OCT-01 ARA-10 ISO-00 STR-07 EB-08 SP-02 ICA-11
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DRAFTED BY TREAS:IDN:JSWEENEY
APPROVED BY ARA:S.A.SHELTON
STR:TREGAN (IN DRAFT)
TREAS:ITT:FVUKMANIC
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FM SECSTATE WASHDC
TO AMEMBASSY MEXICO PRIORITY

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PASS TO FINANCIAL ATTACHE

E.O. 11652: N/A

TAGS: EFIN, MX

SUBJECT: BLUMENTHAL LETTER TO IBARRA REGARDING AUGUST 7 BILATERAL

1. WE WOULD APPRECIATE THE EMBASSY DELIVERING TO FINANCE MINISTER IBARRA THE TEXT OF THE FOLLOWING LETTER FROM TREASURY SECRETARY BLUMENTHAL:

2. "DEAR DAVID: AS A FOLLOW UP TO OUR MEETING IN BOGOTA ON AUGUST 7 I THOUGHT IT MIGHT BE USEFUL TO FORWARD TO YOU SOME ADDITIONAL INFORMATION AND OBSERVATIONS. FIRST OF ALL I WAS PLEASED THAT YOU WERE ABLE TO JOIN ME IN BOGOTA FOR BILATERAL CONSULTATIONS. WHILE AT TIMES WE

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MAY NOT AGREE ON EVERY ISSUE, I AM FIRMLY CONVINCED THAT SUCH MEETINGS ARE MUTUALLY BENEFICIAL.

3. ON THE QUESTION OF STATE RESTRICTIONS ON INSTITUTIONAL INVESTMENTS IN FOREIGN SECURITIES, SEVERAL POINTS ARE ESPECIALLY RELEVANT. SUCH RESTRICTIONS, INCLUDING THE EXCEPTION FOR CANADA, ARE MANDATED BY STATE LAW AND

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CANNOT BE CHANGED BY THE FEDERAL GOVERNMENT. THE MOST VISIBLE OF THESE RESTRICTIONS ARE NEW YORK STATE LIMITS ON THE ALLOCATION OF PORTFOLIO HOLDINGS OF INSURANCE

COMPANIES WHICH ARE EITHER HEADQUARTERED OR SELL INSURANCE IN NEW YORK. IT IS MY UNDERSTANDING THAT AT THE PRESENT TIME, MOST OF THE MAJOR INSURANCE COMPANIES HAVE CHOSEN TO PURCHASE SUBSTANTIALLY FEWER FOREIGN SECURITIES THAN ARE PERMITTED UNDER NEW YORK LAW WHICH LIMITS SUCH HOLDINGS TO ONE PERCENT OF ASSETS. THUS, THERE IS FURTHER SCOPE FOR ADDITIONAL PURCHASES BY THEM.

4. I UNDERSTAND THAT SEVERAL U.S. UNDERWRITING FIRMS HAVE BEEN EXPLORING WITH THE INSURANCE COMPANIES THE EXTENT TO WHICH THEY WOULD LIKE TO SEE THE ONE PERCENT CEILING LIBERALIZED AND WOULD SUPPORT EFFORTS TO ACHIEVE THIS IN THE STATE ASSEMBLY. WITHOUT THE SUPPORT OF THE INSURANCE COMPANIES IT WOULD BE VERY DIFFICULT TO OBTAIN LEGISLATIVE APPROVAL.

5. TREASURY STAFF HAS BEEN IN TOUCH WITH A NUMBER OF INVESTORS WHO MAY BE INTERESTED IN A LIBERALIZATION OF EXISTING LEGISLATION. I WILL CONTINUE TO FOLLOW THIS ISSUE CLOSELY AND AT SUCH TIME AS THE MARKET PARTICIPANTS MOVE TO SEEK LIBERALIZATION OF NEW YORK LAW, I LIMITED OFFICIAL USE

WOULD BE HAPPY TO PROVIDE ANY SUPPORT THAT MAY BE APPROPRIATE.

6. YOU ALSO INQUIRED ABOUT U.S. RESTRICTIONS ON IMPORTATION OF STEEL PIPE. I HAVE INVESTIGATED THIS MATTER AND HAVE NOT FOUND ANTI-DUMPING ACTIONS PENDING AGAINST ANY MEXICAN FIRMS. OF COURSE, THIS PRODUCT WOULD BE SUBJECT TO THE TRIGGER PRICE MECHANISM FOR IMPORTED STEEL MILL PRODUCTS WHICH WAS ESTABLISHED BY THE TREASURY DEPARTMENT IN JANUARY OF THIS YEAR TO ASSIST US IN RAPIDLY ENFORCING THE ANTI-DUMPING ACT OF 1921. UNDER THIS SYSTEM, WE ESTABLISH A 'TRIGGER PRICE' (BASED UPON JAPANESE COST OF PRODUCTION) AND THEN INVESTIGATE ANY STEEL IMPORTS, REGARDLESS OF SOURCE, THAT ENTER THE U.S. BELOW THAT PRICE. THIS SYSTEM DOES NOT PREVENT SALES IN U.S. MARKETS BELOW THE TRIGGER PRICE IF THOSE SALES ARE MADE AT OR ABOVE 'FAIR VALUE' (I.E., AS DETERMINED BY THE SELLING PRICE IN THE PRODUCING COUNTRY OR, IN SOME CASES, BASED UPON CONSTRUCTED COSTS OF THE PRODUCER) UNDER THE ANTI-DUMPING ACT. THUS, A TRIGGER PRICE FOR PIPE AND TUBE WOULD NOT BE AN IMPEDIMENT TO MEXICAN TRADE IN THIS PRODUCT UNLESS

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SHIPMENTS WERE ENTERING THE U.S. BELOW FAIR VALUE. IF
SALES BELOW FAIR VALUE WERE ESTABLISHED, AN ANTI-DUMPING

DUTY THEN COULD BE IMPOSED TO RAISE THE SALES PRICE TO
FAIR VALUE.

7. AS I MENTIONED, WE WOULD WELCOME A VISIT FROM UNDER
SECRETARY OF COMMERCE HERNANDEZ. AMBASSADOR STRAUSS'S
OFFICE WILL BE PLEASED TO SET UP INTERAGENCY MEETINGS.
WE WOULD PROPOSE A DETAILED OBJECTIVE REVIEW OF ALL
MTN ISSUES OF SPECIAL CONCERN TO THE GOVERNMENT OF MEXICO,
DISCUSSING WHEREVER POSSIBLE THE BENEFITS AS WELL AS
THE COSTS OF MEXICAN PARTICIPATION IN THE GATT AND THE
MTN.
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8. THE MEETING WOULD INCLUDE AN ANALYSIS OF:

-- GATT MEMBERSHIP
-- THE SUBSIDIES/CVD DRAFT CODE;
-- THE SAFEGUARD CODE;
-- GATT FRAMEWORK;
-- THE CUSTOMS VALUATION CODE;
-- THE GOVERNMENT PROCUREMENT CODE;
-- THE LICENSING TEXTS; AND
-- TARIFF NEGOTIATIONS, INCLUDING AGRICULTURE.

9. A U.S. DELEGATION WITH EXPERTISE IN ALL OF THESE
AREAS WILL BE PREPARED TO DISCUSS IN DETAIL THE CURRENT
STATUS OF EACH OF THESE AREAS, THE U.S. POSITION ON
EACH, AND THE IMPLICATIONS OF EACH, FROM THE U.S.
PERSPECTIVE, FOR MEXICO. WE WOULD HOPE THAT WE
COULD USE THIS MEETING TO MAKE MAJOR PROGRESS IN
ADDRESSING THE ISSUES THAT HAVE ARISEN BETWEEN OUR
TWO NATIONS IN THE MULTILATERAL TRADE NEGOTIATIONS.

10. THE MOST PROPITIOUS TIME FOR THESE DISCUSSIONS
WOULD BE AT A MUTUALLY AGREED UPON DATE AFTER SEPTEMBER 5,
1978. OWING TO VACATIONS AND OTHER CONFLICTS, UNITED
STATES GOVERNMENT OFFICIALS WITH THE REQUIRED EXPERTISE
WOULD NOT BE AVAILABLE BEFORE THAT DATE.

11. ON THE COMPTROLLER'S PROPOSED RULING ON LEGAL
LENDING LIMITS I RECALL THAT YOU REQUESTED AN ADVANCE
COPY. I HAVE CHECKED WITH THE COMPTROLLER'S OFFICE AND
JOHN HEIMANN INDICATED THAT THERE SHOULD BE NO DIFFICULTY
IN ALLOWING YOU TO SEE THE TEXT A FEW DAYS BEFORE IT IS
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12. DURING OUR DISCUSSIONS OF IDB ISSUES, YOU MENTIONED THAT FOR MEXICO LOANS FROM PRIVATE CAPITAL MARKETS

MIGHT BE MORE ADVANTAGEOUS THAN LOANS FROM THE IDB. IN TERMS OF FLEXIBILITY IN SECURING AND UTILIZING FUNDS THIS MAY BE TRUE BUT CERTAINLY NOT IN TERMS OF INTEREST RATES OR MATURITIES. LOANS FROM THE IDB ON ORDINARY TERMS WITH 20-25 YEAR MATURITIES AND AN INTEREST RATE OF 7.5 PERCENT APPEAR TO REPRESENT A VERY ADVANTAGEOUS SOURCE OF FINANCE. I WANT TO ASSURE YOU THAT WE ENVISION A CONTINUED SUBSTANTIAL LEVEL OF LENDING TO MEXICO FROM THE IDB DURING THE PERIOD OF THIS REPLENISHMENT ALTHOUGH I FEEL THAT ANY INCREASE IN THE RESOURCES OF THE BANK SHOULD BE DIRECTED LARGELY TOWARD THOSE COUNTRIES IN GREATEST NEED.

13. AT THE SAME TIME, I STILL BELIEVE THAT MEXICO, IN LIGHT OF ITS IMPROVING ECONOMIC POSITION, SHOULD BE ABLE TO INCREASE SOMEWHAT ITS CONVERTIBLE CURRENCY CONTRIBUTION TO THE FSO TO HELP ITS LESS FORTUNATE NEIGHBORS. ALTHOUGH I RECOGNIZE THAT WE ARE NOT IN COMPLETE ACCORD ON IDB ISSUES, OUR VIEWS ARE NOT IRRECONCILABLE AND I BELIEVE THAT CONTINUED BILATERAL DISCUSSIONS BETWEEN OUR GOVERNMENTS WOULD BE USEFUL.

14. FINALLY, AS A RESULT OF CONCENTRATING ON OUR BILATERAL ISSUES, I NEGLECTED TO DISCUSS SOME OF THE IMPORTANT SUBJECTS ARISING FROM THE BONN ECONOMIC SUMMIT MEETINGS AS I HAD INTENDED. I HOPE THAT WE WILL HAVE THE OPPORTUNITY TO DISCUSS THESE THE NEXT TIME WE MEET.

15. WARMEST PERSONAL REGARDS, SINCERELY, W. MICHAEL BLUMENTHAL"

16. FYI: SECRETARY BLUMENTHAL ALSO PROMISED TO FOLLOW
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UP ON THE QUESTION OF MEXICAN EXPORTS OF TOMATOES TO THE U.S. AND YOU SHOULD PASS THE FOLLOWING ALONG TO APPROPRIATE OFFICIALS IN THE FINANCE MINISTRY.

17. FLORIDA TOMATO GROWERS ARGUE THAT THE MEXICANS ARE DUMPING TOMATOES ON THE EAST COAST OF THE U.S. AND THEY ARE PRESSING FOR RESTRICTIONS ON MEXICAN EXPORTS

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OF WINTER TOMATOES TO THE U.S. THERE ARE TWO PROPOSALS UNDER CONSIDERATION THAT WOULD RESTRICT MEXICAN TOMATO EXPORTS: A BILL SPONSORED BY CONGRESSMAN TUCKER TO PLACE A QUOTA ON TOMATO IMPORTS AND A PROPOSAL BY SENATOR STONE TO EXPAND THE COVERAGE OF THE DEPARTMENT

OF AGRICULTURE'S MARKETING ORDER TO INCLUDE PACKAGED TOMATOES.

18. TREASURY IS OPPOSED TO THE IMPOSITION OF QUANTITATIVE RESTRAINTS ON MEXICAN EXPORTS OF TOMATOES TO THE U.S. THE PROBLEM IS PRIMARILY A SEASONAL PHENOMENON CREATED BY ADVERSE WEATHER CONDITIONS IN CERTAIN YEARS. WE BELIEVE THAT THE SUBGROUP ESTABLISHED DURING THE U.S.-MEXICAN BILATERAL CONSULTATION IN EARLY JUNE IS THE BEST VEHICLE FOR ANALYZING THE PROBLEM AND ARRIVING AT A MUTUALLY BENEFICIAL SOLUTION. THE U.S. HAS PROPOSED THAT THE SUBGROUP MEET AGAIN IN MID SEPTEMBER. ADDITIONALLY, APPROPRIATE U.S. GOVERNMENT OFFICIALS ARE WILLING TO DISCUSS THE SUBJECT WITH UNDER SECRETARY HERNANDEZ IF HE WISHES TO DO SO DURING HIS UPCOMING VISIT TO WASHINGTON.

19. ORIGINAL HAS BEEN POUCHED TO EMBASSY. CHRISTOPHER

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